

**CITY OF MOUNTAIN VIEW
MEMORANDUM**

DATE: April 30, 2004

TO: City Council

FROM: Elaine Costello, Community Development Director
Ellis M. Berns, Economic Development Manager

SUBJECT: MAY 11, 2004 STUDY SESSION – ECONOMIC DEVELOPMENT
STRATEGY AND ACTION PLAN AND DOWNTOWN RETAIL
RECRUITMENT

PURPOSE

The purpose of this study session is to provide the City Council with a summary of the results of the Economic Development Strategy and Action Plan and for the Council to provide input to staff on the strategic recommendations and the Economic Development Action Plan prior to returning it to the City Council for formal action. Staff will also update the Council on the Downtown retail recruitment efforts.

BACKGROUND

The previous economic development strategy was developed in 1993 at the beginning of a major economic expansion in the Valley. The strategy included four goals: (1) to improve development services; (2) to diversify the City's revenue base; (3) to attract and retain new retailers and focus on specific commercial areas such as the downtown; and (4) to manage and utilize City-owned properties and use them as resources and tools to assist corporations in expanding and enhancing the community, thereby creating a long-term source of revenue.

The implementation of those four goals resulted in the creation of the City's Development Services Center. The City also strengthened and diversified the City's commercial and corporate bases. Corporate headquarters for SGI, Veritas, Verisign, AOL/Netscape and Microsoft were all constructed in Mountain View. The existence of these important corporations here in Mountain View solidified the City's role as a

technology center. The Johnson & Johnson/ Alza new campus added to the City's diversity by securing a major pharmaceutical company within the community.

The City also successfully negotiated ground leases with SGI (Goldman/Sachs). The City-owned land on Charleston East and Crittenden Lane generates \$3 million to \$4 million per year in revenue to the General Fund.

Over the years, major new retail was added with the construction of Wal-Mart and Allison BMW. In addition, the downtown also became a focal point. In 1998 to 1999, the City Council created the Downtown Committee. The Committee established an aggressive work plan with major tasks to be completed over a five- to six-year period. The tasks successfully completed included:

- Revisions to the Downtown Precise Plan.
- The adoption of sidewalk café, sign and CUP ordinances.
- The establishment of an active retail recruitment program.
- Council approval of the design and funding of a second downtown parking structure.

During the past three to four years, the City also saw unprecedented growth in the downtown with over 200 new residential units, 260,000 square feet of office space and 40,000 square feet of retail space. Major tenants such as Fenwick & West also chose to locate in downtown, adding to the diversity of the City's economic base.

The 1993 strategy successfully carried the City through an unprecedented economic expansion. However, with the downturn in the economy and phasing out of the Downtown Revitalization Authority that began in 2004, the City has an opportunity to reevaluate its economic development program, revise objectives and develop approaches that reflect current economic challenges and opportunities.

The City retained Conley & Associates and Leslie Parks Consulting to evaluate the City's economic development program, to make recommendations for revising the 1993 strategy and to address the current economic development challenges and opportunities.

RESULTS OF EVALUATION

The consultants prepared the "Economic Development Strategy and Action Plan" (see Attachment 1) that provides an economic and market context for Mountain View. The report concluded that Mountain View's fiscal health is tied to the vitality of its business community. Currently, Mountain View businesses contribute 56 percent of the sales tax revenue. During the recent economic downturn, the City has seen a dramatic drop in sales tax revenue. From the peak year of 2000-01 to 2004-05, there has been a decline of \$10.9 million or 45.1 percent; for the same period, transit occupancy taxes (TOT) have declined by 26 percent and an increase in vacant space from a low of 2 percent in 2000, to over 28 percent in 2002-03.

It is anticipated that the demand for industrial and office space will not increase for a minimum of five to seven years, primarily because significant job growth in the technology sector is not anticipated for several years. However, with the growth of bioscience, nanotechnology and the convergence of these technologies, there are opportunities in Mountain View to leverage the City's competitive strengths:

- Central location
- Quality space
- Strong business climate

The report also evaluated the practices of the City's economic development program and compares them to successful "best practices" used by four neighboring communities. It also evaluated the City's Economic Development Division organizational structure and staffing to determine whether the Division is appropriately staffed and funded and is able to support the goals and objectives of the City's Economic Development Division.

The report concluded that the core economic development "best practices" are business retention and recruitment. The report also found that the Economic Development Division is covering a broad range of tasks and responsibilities, many of which are only marginally related to these core economic development programs (parking maintenance assessment district, business improvement districts), thus making it difficult for the Division to support the goals and objectives of the City's economic development goals.

As part of the strategy, a five-year action plan (Pages 46 to 48 of the attached report) was developed that identified five key goals and tasks for implementation. Many of the tasks identified in the action plan reflect what the City is already doing. Following are

the goals, a summary of the tasks proposed to achieve each of them and recommendation whether the City should increase or decrease its resources and efforts to accomplish these goals.

Goal 1: City-Wide Support— Make economic development a City-wide priority by reestablishing clear goals and objectives and communicating them to all City departments and the community.

- The City should increase its efforts in this area and formalize a quick response team by identifying selected representatives from each department, including the Mayor and City Manager, to respond to specific inquiries from businesses. The team will be utilized on an "as-needed" basis.

Goal 2: Business Climate— Continue to maintain, strengthen and diversify the City's high-quality corporate and commercial base that attracts and retains a broad range of services and employment opportunities in order to meet the needs of the community and support the long-term financial health of the City.

Retaining and encouraging local businesses to expand is a key component in the current market. City staff has been actively involved and is working with businesses as has been demonstrated by:

- Google leased 506,000 square feet of the Amphitheatre Parkway site located on City-owned land, the largest real estate transaction in 2003.
- Intuit recently renewed its leases for several buildings in the North Bayshore Area.
- Costco and Allison BMW, two major sales tax generators, are expanding their businesses on existing sites that will result in retaining these businesses as well as additional new sales tax to the City.

The City has also been very active and successful in attracting new businesses to the community. The most recent additions are:

- Mercury Interactive— 270,000 square feet— software company moving from Sunnyvale into former AOL/Netscape buildings.
- Actel Corporation— 225,000 square feet— semiconductor.

- Boston Scientific – 62,000 square feet – medical device developer and manufacturer. Moved into manufacturing space in the North Bayshore Area.
- Computer History Museum – 107,000 square feet – formerly located at Moffett Field.
- Omni Cell – 85,000 square feet – medical device company relocated to Mountain View.
- Drexler Technology – 64,000 square feet – expanding technology company (optical security cards) formerly located on Independence Avenue and relocating to Charleston Road in the North Bayshore Area.

Some of the tasks in which the City should increase its efforts are:

- Proactive marketing and outreach programs to developers, brokers and users.
- Consider using economic development and redevelopment tools to attract and retain businesses, especially those businesses that can sustain and generate revenue.
- Participate in various City and regional initiatives such as Joint Venture/Moffett Field and the Chamber of Commerce.

The strategy also recommends that the City consider transitioning economic development resources away from the downtown. Over the years, the City's Economic Development staff have been staffing the Downtown Committee and two subcommittees. Both the staff and the Committee have been actively involved with the revisions to the Downtown Precise Plan, the Conditional Use Permit process, café and sign guidelines and the second downtown parking structure. These efforts have all resulted in seeing a positive transformation of the downtown with the construction of 400 and 401 Castro Street and 303 Bryant Street, new residential projects along Castro and Bryant Streets, new retailers such as Napoleon at Home and Books Inc., and the upgrade and diversity of restaurants, Zucca, Pasta?, Don Giovanni, Amirin Thai, CasCal, etc.

Given the limited available resources and the phasing out of the Revitalization District over the next few years, the City needs to begin thinking about transitioning some of the resources dedicated to the downtown to other areas of the City, especially to the commercial areas along El Camino Real and in the North Bayshore Area.

Goal 3: Land Use – Designate adequate land for commercial opportunities in suitable and attractive locations throughout the City to retain and attract high-quality business/retail.

Some of the tasks in which the City should increase its efforts are:

- Integrate economic development goals with land use decisions.
- Identify properties with potential to attract sales tax producers and use the City's land use authority (such as rezoning and lot consolidation) to accommodate these uses and evaluate areas of the City to be designated exclusively for sales tax generators.

Goal 4: City Resources – Use City land and other City resources to help strengthen the City's economic base. Some of the tasks in which the City should increase its efforts are:

- Invest City resources in unique commercial development opportunities that will result in net new revenue to the City.
- Utilize City-owned property such as Charleston East or the downtown properties to create opportunities that will result in new and stable revenue to the City.

Goal 5: Development Services Center – Assure that the Development Services Center continues to be an asset for economic development by pursuing ways of streamlining the development review process while ensuring the creation and preservation of high-quality retail and commercial areas.

- The City should continue its efforts to support the Development Services Center and one-stop permitting. During the past few years, with budget constraints, there have been staffing reductions that have challenged the City's ability to maintain the same level of services.

A one-year action plan (Pages 49 to 52 of the attached report) was also developed based on the above goals and includes specific tasks that could be implemented this coming year if the Economic Development Strategy and Action Plan is adopted by the City Council.

DOWNTOWN RETAIL RECRUITMENT

On October 30, 2001, the City adopted a Downtown Retail Recruitment Strategy. Included in this strategy are three major components:

1. Marketing and Image – Develop marketing and imaging materials for the downtown in general. Market specific retail opportunities.
2. Building a Foundation – Attract a grocery or pharmacy to meet the needs of the changing demographics and to anchor the downtown.
3. Diversification of Retailers – This component relates to the identification of specific redevelopment tools and programs that the City/Revitalization District could offer to attract retailers.

The Retail Recruitment Strategy was implemented by including in the Economic Development Strategy and Action Plan a review of a variety of programs and Best Practices used by other redevelopment agencies to attract retailers to their downtown (see Pages 36 to 42 of the report). The City also retained Boyd & Associates, a retail consultant, to assist with the marketing and image component of the strategy and to attract an anchor and new retailers to the downtown.

The findings from the Economic Development Strategy and Action Plan were:

1. The City should consider modifications to the City's Facade Improvement Program to increase the grant amount to attract new retailers to the downtown and to upgrade the existing buildings. The Downtown Committee has recommended a modification to the Facade Improvement Program. This has been forwarded to the City Council for action.
2. Loan programs are complicated and very time-consuming. The report recommended that if the City would prefer, they could provide funding to an existing loan program operated by a nonprofit like Lenders for Community Development. However, this is not being recommended because of the limited financial resources available and the amount of staffing required to monitor the program.
3. Business retention and recruitment – The report strongly recommends that the City continue this effort, particularly in the downtown, to continue to seek diverse and anchor retail tenants and in the North Bayshore Area to reduce the vacancy rate.

4. Development and sale of City-Owned Property – The City should evaluate the downtown City-owned property and consider pursuing development opportunities to bring destination uses into the downtown.
5. Special incentives to increase sales tax revenue and redevelopment. This would be applicable not only to the downtown and the North Bayshore Area but City-wide for the City to consider grants for tenant improvements, deferring/waiving development fees and sharing of sales and use tax if it is appropriate. Staff is recommending this as part of the action plan (Goal 2 – Business Climate) on a case-by-case basis to consider incentives that will retain and attract businesses to Mountain View.

Boyd & Associates developed a marketing campaign to promote and attract new diverse retailers and anchor tenants to the downtown. The campaign focuses on retail real estate brokers who represented a variety of different types of retailers. Following is a summary of actions that have been implemented with the real estate brokers:

- A broker database was established and quarterly the City's list of downtown vacancies is updated and e-mailed to approximately 100 retail brokers to keep them informed of retail opportunities.
- A retail broker workshop/tour was organized and held in June 2003. Approximately 20 retail real estate brokers attended representing several major brokerage firms such as Cornish & Carey, Retail West, Marcus & Millichap, Colliers International and the Retail Real Estate Group. The workshop included an overview of downtown, the various downtown initiatives and a walking tour of available vacant space.
- A downtown merchandising plan was created that targeted approximately 150 retailers who were contacted to determine their interest in opening retail stores in downtown. The plan included contacting retailers in such categories as active wear, women's apparel, bicycle and sporting goods, camera, crafts and collectibles, electronics, grocery, health and beauty, home and garden, art galleries and wine merchants.

Based on these efforts, there has been strong interest from some retailers in downtown Mountain View such as Black Sea Gallery, Peet's Coffee, Longs Drugs, Chicos, CineArts, etc. Interest is strongest from the home and garden category

followed by health and beauty and from local retailers from cities like Los Altos, Palo Alto and Burlingame looking either to possibly expand or relocate.

- Another part of the Retail Recruitment Strategy was to work with the downtown property owners to achieve their support in the City's effort to attract a higher-quality and more diverse retail mix. In coordination with City staff, consultant and the Central Business Association (CBA), a workshop was held with downtown property owners. The purpose of this workshop was to outline the goals of the Retail Recruitment Strategy, provide information on marketing their properties to retailers, an overview of what retailers look for when seeking new locations, how to qualify tenants and an overview of some of the downtown initiatives (Sidewalk Café Guidelines, signage, status of the Downtown Precise Plan, Conditional Use Permit process and the Facade Improvement Program).

In addition, City staff and consultants continue to work with individual property owners to assist them with finding tenants for their properties.

In conclusion, the Retail Recruitment Strategy has been successful in the upgrading and attraction of new restaurants (CasCal, Cantankerous Fish, Amirin Thai, etc.) and retail (Napoleon at Home, Books Inc.). It is proposed that the City continue its efforts in this area to improve the quality and diversity of retail in the downtown.

It is proposed that the following downtown retail recruitment efforts continue in 2004-05:

- Continue work with retailers, real estate brokers and property owners.
- Development of new marketing material which can be used and distributed, particularly at retail trade shows and conferences such as International Center Shopping Centers (ICSC).
- Continue broker tours to highlight the new retailers and restaurants in downtown Mountain View and available properties. A broker tour has been scheduled for May 19, 2004.
- Key leasing concepts and property owner education will also be part of the 2004 focus working directly with property owners so they can maximize the values of their property and work toward making the downtown a more vibrant, dynamic place for people to live, work, shop and dine.

- Outreach to the retailers by introducing them to the City of Mountain View and promoting the City's strong demographics, business-friendly government and excellent retail opportunities within the downtown will continue to be performed through personal contacts and marketing materials.

NEXT STEPS

1. Economic Development Strategy – Depending on Council's input, staff would return to the City Council at a regular meeting for final action on a five-year and one-year action plan. Staff will also provide an annual update on the tasks outlined in the action plan.
2. Downtown Retail Recruitment – Based on input from the City Council, staff would continue the downtown retail recruitment efforts.

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Attachment: 1. Economic Development Strategy and Action Plan Dated
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